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TAGS: [PREL](#) [ETRD](#) [EFIN](#) [MNUC](#) [EPET](#) [AA](#) [CH](#) [RU](#) [EG](#)
SUBJECT: MUBARAK'S CHINA VISIT STRENGTHENS ECONOMIC, TRADE
TIES

REF: BEIJING 23548

Classified by DCM Stuart Jones for reasons 1.4 (b) and (d).

¶1. (C SUMMARY: Egyptian President Mubarak and a delegation including most of his economic ministers visited Moscow and Beijing in early November. While the visit played in the press as a rebuke to the US, the delegation did conduct some real business while visiting both countries, China in particular. The GOE concluded a number of trade deals with the Chinese, and the two governments signed a mostly-ceremonial nuclear cooperation agreement. Both the Russians and the Chinese are keen to work with Egypt on its proposed nuclear power plant, and are pushing their rail equipment as well. Minister of Transport Mansour told Commercial attache the Chinese rail equipment prices offered Egypt are 47 percent lower than US companies. Egypt would like to do more business with China; in 2005, Egypt had a \$1.85 billion trade deficit with China, for which they were partially compensated with Suez Canal transit revenues. END SUMMARY

¶2. (C) Egypt's President Mubarak took advantage of his participation in the Beijing Summit and Third Ministerial of the Forum for China-Africa Cooperation (FOCAC) November 3-5, staying on November 6-7 for his bilateral agenda. He visited Moscow for three days en route to Beijing; the China trip seems to have netted more substantive results. MFA Deputy Minister for East Asia Magdy Amer told poloff that one important aspect was to show Mubarak how China has developed economically in recent years; he last visited in 2002. The delegation included all of Egypt's economic ministers, and so, Amer said, it was a good opportunity for them to see and learn from China's economic development experience.

¶3. (C) According to Amer, the two sides discussed Middle East regional issues, terrorism and cooperation. Mubarak's meeting with his Chinese counterpart, which lasted ninety minutes, focused on economic and trade issues. They also discussed North Korea's nuclear program, and agreed on the need to contain North Korea's nuclear ambitions. Egypt solicited China's support for full implementation of the Non-Proliferation Treaty (ie., to include Israel). Amer told poloff Egypt and China are in "full agreement" on nonproliferation and disarmament issues. The GOE and China also discussed proposals to improve Egypt's rail system, although Egypt did not agree to buy any Chinese equipment.

¶4. (C) Egypt and China signed several agreements; most appear to have limited substantive content. A government-to-government agreement granted China free market status, as part of its WTO accession. The two countries signed an agreement on nuclear cooperation (see para 7). The two Health Ministers signed an agreement on Avian Influenza; the GOE hopes to take advantage of Chinese expertise, including with poultry vaccines. Egypt's GAFI signed an

agreement with their Chinese counterparts on investment which, according to Amer, contained nothing concrete. There was also an MOU between the Egyptian Social Fund for Development and a Chinese bank on microfinance.

¶5. (U) In terms of trade, on the IT side, Egypt's representative of the Kuwaiti-based Kharafi Group agreed to buy 80 percent of SITEX, a Chinese IT company, and use the acquisition to transfer Chinese IT technology to Egypt. Etilisat, the Emirati company that bought Egypt's third mobile license, signed an agreement with the Chinese IT firm Huawei, which will participate in building the new mobile network.

Military Cooperation

¶6. (C) Military Cooperation: Minister of Military Production Meshaal told poloff on November 9 that Egypt is considering Russian air defense systems. (Note: At present, the majority of Egypt's air defense is Russian-made. End note.) He said he visited Chinese military production facilities twice during his tenure as minister, but is not convinced China would be a good supplier. He confirmed that China had tabled an offer for fighter aircraft, but could not provide any detail. (Note: Reports indicate Egypt is considering buying JF-17s from China or upgraded F7s. End note). During a read-out on the China visit, MFA Deputy Assistant Minister Magdy Amer ducked a question about GOE-China mil-mil cooperation, but pointed out that Egyptian Minister of Defense Tantawi did not participate.

NUCLEAR COOPERATION

¶7. (C) According to the MFA's Amer, the two groups discussed Egypt's nuclear program in general terms and signed an

agreement pledging to strengthen cooperation in the development of peaceful nuclear energy. Embassy contacts indicate the agreement was non-specific, and that Egypt will work with all partners. Local press commentary welcomed the news, however, offering China as a positive alternative to cooperation with the US. Mubarak also raised Egypt's nuclear plans during his Nov 1-3 trip to Moscow. The Russians are also interested in working on the proposed Egyptian nuclear plant project.

Frequent flyers

¶8. (U) Mubarak's trip follows a series of ministerial-level visits to China since the summer. Minister of Petroleum (MoP) Sameh Fahmy was in China earlier this year, and signed agreements for oil services equipment as well as exploration.

The first agreement, signed between the MoP and the China Petroleum and Chemical Corporation (Sinopec), established a new joint Sino-Egyptian company to specialize in the construction of oil rigs in Egypt. The new company, Sino-Tharwa, will deliver three rigs in 2007 and 20 rigs by ¶2010. Fahmy also signed agreements with China's Sinoc to cooperate on international tenders in Egypt for exploration and discovery, and to expand Sinopec's activities, including increasing the number of rigs it operates here from two to seven by 2008.

¶9. (C) Minister of Transport Mohamed Mansour visited China in October to discuss railway equipment procurement among other issues; but the GOE has not yet decided who will supply its needs. Mansour (please protect) has told U.S. Embassy Cairo's Commercial Attache that the Chinese rail equipment prices offered to Egypt are 47 percent lower than U.S. companies but added that he recognizes U.S. advantages in service and maintenance. Minister Rachid's recent trip, also in October, netted deals which he expects will increase bilateral trade to over \$5 billion over the next several years. The agreements include an industrial zone in Cairo for textile, footwear and pharmaceutical investments. There is a deal to build an \$800 million aluminum smelter, with a projected capacity of 270,000 tons, presumably to exploit Egypt's subsidized electricity prices. A third agreement

established three private-sector-operated technology service centers, two for textiles and one to transfer Chinese expertise in marble and granite stonework. In July 2005, the China Textile Machinery Group (CTMC) began construction of a \$12.5 million non-woven fabric project in the north-west Suez free trade zone.

¶10. (U) After returning from his October trip China, Minister of Investment Mahmoud Moheildin said the Chinese are interested in investing in the northwest Port Suez zone, and signed a contract for polyester production there. The Chinese, he said, had also financed the construction of a \$10 million "one stop" investment office in Assiyut governorate. The Chinese Embassy in Cairo reports 35 Chinese investments in Egypt, mainly in textiles, chemicals, engineering, food process and leather.

Trade

¶11. (U) One of the big topics on the trip was trade, which at this point is one-sided: in 2005, the Chinese exported \$2 billion to Egypt, while the Egyptians sold only \$150 million to the Chinese. Egypt does earn significant Suez Canal revenues on Chinese exports to Europe. According to Rachid, sixty percent of China's exports to Europe pass through the canal. Egypt is seeking to increase this business, he said.

¶12. (U) In 2000, China and Egypt agreed to make Port Said a distribution center for Chinese containers in the Middle East. Since then, Chinese inroads into the sector have increased with the formation of an Egyptian-Chinese committee for transportation, and the two countries have signed additional agreements for container handling in Port Said. Hutchinson Whampoa has a 25-year deal with the Alexandria Port Authority to operate two new container terminals at Alexandria and Dekheila, and with increased Chinese container traffic through the Suez we expect further expansion of their presence in Egypt's ports.

¶13. (C) COMMENT: One important reason for President Mubarak's recent trip to Moscow and Beijing was to send a signal to the U.S. that Egypt has other friends. The notion of Egypt's adopting China's growing economic role has political resonance on the Egyptian "street." At the same time, Egypt conducted serious business in both countries, including nuclear cooperation and rail equipment. In both private conversations and in the press, Egyptian comments reflect a general expectation the U.S. will be annoyed by closer Egypt-China economic ties. END COMMENT.

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